# Foreign experience in economic risk management and opportunities for their use

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## **ABSTRACT**

Agriculture is one of the high-risk sectors of the agro-industrial complex, which operates under the influence of internal and external risks. The results of the activities of agricultural producers are directly related not only to the amount and quality of labor, the level of technology and technology used, but also to the objective high risk conditions for agricultural production. Risk research remains one of the most important modern areas of economic research. Risk studies play an important role in predicting economic development and making optimal decisions. Achieving sustainable agricultural production requires research in industry risks. It is necessary to establish a system of organizational and economic measures to reduce the negative impact of risk factors on the production and financial results of agricultural enterprises

**Keywords:** efficiency, science and technology, development, financial sustainability, insurance, risks, uncertainty risk, natural disasters.

#### 1. INTRODUCTION

Taking into account the existing conditions in the Republic, the best practices of foreign countries in risk management and their rational use will increase the efficiency of agricultural enterprises and increase their production capacity.

Despite the current high levels of science and technology, many countries around the world are facing increasing environmental and economic risks that seriously affect agricultural crops, and these problems are becoming increasingly global.

At the same time, analysis of international experience in this issue shows that insurance is the most effective risk management method to ensure the sustainability and financial sustainability of agricultural production.

Necessity of development of insurance practice in agricultural sector is reflected in:

- that agricultural production is associated with high risks as a specific type of economic activity;
- In most cases, agricultural enterprises are unable to independently compensate for natural disasters or production losses;
- insurance protection as a guarantee of compensation for losses caused by adverse events and ensuring sustainable development of the agricultural sector.

Various strategies have been developed to manage agricultural risks in practice, but agroinsurance remains an effective tool to protect against agricultural risks and unforeseen losses.

Not only is agro-insurance a proven mechanism for managing all types of agricultural risks, it is also the best way to integrate the interests of all insurance market participants. Therefore, the development of modern models of insurance in the agricultural sector requires an innovative approach to it.

Given that the practice of agricultural insurance was first introduced in France in 1750, it is possible to say that there has been an international experience in this regard. At present, the most advanced agricultural insurance systems are highly developed in the US, Canada and Spain, and developing countries - in India. In recent years, a number of new programs have been developed by governments and insurance companies in these countries, the most notable of which is the rapid

diversification of insurance services in the agricultural sector. In particular, agricultural insurance, income insurance and income stabilization are the most widely used insurance programs in today's international practice.

#### 2. ANALYSIS AND RESULTS

The USA is the leader in the implementation of agricultural insurance risk management programs. In 2017, this country introduced 551 insurance programs. In the production of agricultural products, insurance programs have been introduced for 123 types of facilities (agricultural crops and livestock), allowing farms to fully insure against almost all types of risks.

The main agro-insurance programs for farms are formed in the following areas:

- Individual risks insurance;
- many types of risks insurance;
- Regional Productivity Index Insurance;
- Weather index insurance;
- Farm Income Insurance (agricultural producers are protected not only from crop failure but also from falling prices for agricultural products).

In the US, farms purchase insurance policies voluntarily directly from the insurance company of their choice if their insurance conditions are met.

In the US, more than 1.1 million insurance contracts were signed with farms in 2016, covering nearly 90% of farms in the country. Insurance premiums totaled 9.32 billion soums US dollars. Insurance companies paid 3.74 billion soums. US dollars paid insurance indemnities. The share of government subsidies in insurance premiums amounted to 62.9%, or 5.86 billion soums. USD (Table 1).

Table 1
Information on the US State Insurance Program

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Indicators	2000	2012	2015	2016	
Insurance contracts with farms	1 323 243	1 174 007	1 204 619	1 159 648	
Insurance liabilities, bln. \$	34,44	117,16	102,51	100,51	
Insurance premiums, bln. \$	2,54	11,12	9,76	9,32	
State subsidy, bln. \$	0,95	6,97	6,09	5,86	
Share of state subsidy,%	37,4 %	62,7 %	62,4 %	62,9 %	
Paid coverage, bill. \$	2,59	17,45	6,31	3,74	
Insurance Portfolio Loss,%	102	175	65	41	

It provides direct assistance in the purchase of insurance policies by state farms. Farmers pay more than 40% of their insurance policies and the rest are subsidized by the state.

In the USA, MPCI (Multi-Peril Crop Insurance) is an agricultural crop insurance program that is the cornerstone of agricultural risk management and insurance. The program is subsidized by the US Government to protect farms from a variety of natural disasters, including drought, excessive humidity, cold, wind, floods, hail, insects, and other natural disasters. The amount of insurance compensation is based on the average productivity of each farm based on the scale of risks or losses. Insurance payments to insured farms are covered by the payment of a small portion of the crop if the guaranteed income or loss level is reduced.

There are three forms of crop insurance in the US:

- 1) CAT (Catastrophic Risk Protection) protection against deadly risks;
- 2) GRP (Group Risk Plan) and Buy-up Coverage purchased insurance coverage;
- 3) NAP (Non-insured Assistance Program) is a non-insured assistance program.
- 1. Inevitable risks (for example, natural and environmental disasters). With the help of such risk planning and insurance companies, these problems can be solved and in such cases based on situational management.
- 2. Risks of uncertainty (for example, sudden changes in market conditions, unexpected economic and political unrest). It is impossible to accurately predict and eliminate such risks. Therefore, they are

not covered by insurance, but regardless of future changes, hedging is used as a method of mitigating the risk with a payment guarantee within a specified period. Farmers enter into pre-sale contracts for agricultural products to protect against financial losses.

Another way to reduce losses as a result of risks is self-insurance, that is, the creation of a reserve fund to cover losses in the event of an insured event.

In the USA, the system of soft loans under the Agricultural Credit Program is widely used to address the economic risks of farm operations. The funds will be channeled to lower interest rates and provide preferential loans through the financial support of cooperative and specialized banks in the country. As a result, farmers pay around 5-10% interest rates. Agricultural loans are usually issued as securities and traded for risk diversification.

International experience of risk management is reflected in various strategies. By analyzing foreign experience in developed countries of the West (for example the EU), we can see that state support for farms is greatly enhanced. This assistance includes all types of subsidies, guarantees of excessive agricultural production, government regulation of prices, development of innovative technologies and more.

The EU is currently developing common agricultural policy principles for its member countries. During the last 5 years the agrarian sector insurance system has been actively developing in Italy, France, Greece and other countries.

A simple example of a Western European model for agricultural insurance was developed in Germany. In this country, crop losses are not covered by the state. Only in exceptional cases, with the consent of the European Union, it may make specific decisions to assist.

In Germany, agricultural insurance is operated by mutual insurance associations. Such associations have been operating in Germany since 1797. Insurance protects you from just one risk - the hurricane. Over 60% of agricultural crops in the country are insured against this risk. The insured farmers are members of these associations. This type of insurance has gained the confidence of local farmers as a guaranteed risk management tool. Insurance incident monitoring and evaluation is carried out by association farmers. However, according to the interregional evaluation system, the farmers participating in the assessment must be from another area. In the absence of insurance obligations, insurance reserves are distributed among its members by the decision of the general meeting of the association's members.

France has a disaster fund that covers the costs of agricultural crops and grazing. Insurance risks include chronic rainfall, floods, cold stroke, drought, hurricanes, epidemics, and pests. The fund is formed by the payment of additional fees in the property insurance agreement.

In Italy, agricultural insurance is mainly provided by private insurance companies. The government also provides significant financial support. The hail is the only insured risk. In addition, there are small programs that provide freezing of crops for the cultivation of grapes, fruits and artichokes. 50% of insurance premiums are paid by the government and the rest are paid by farmers.

In Spain, agricultural insurance is more advanced than in other countries in Europe. In Spain, agriculture is the most important sector of the national economy. Almost all kinds of agricultural risks are insured in this country. Numerous insurance companies are merged into associations. They are responsible for developing and managing insurance requirements and strategies. Insurance premiums are subsidized by the government from 20 to 44 percent. In addition, the government provides contract reinsurance services. In the case of disasters, the government will not pay farmers any compensation, as virtually all risks affecting their income will be fully covered by agricultural insurance.

In the past, in many countries (although this practice is still ongoing), agricultural producers have already paid 1 hectare of arable land or one livestock for livestock. At present, this practice is being revised and transferred to the risk management system.

International practice demonstrates the need to develop effective models of agricultural risk insurance in the PPP-Public-Private Partnership format. In the traditional model of insurance only two parties - insurer and insurer, in the model of public-private partnership in insurance of agricultural risks with financial support of the state - three subjects of insurance relations: farms, insurance companies and the state. Today in international practice there are 5 types of this model. These are: a) USA; b) Canada, Israel; c) Spain, Turkey; d) Austria, Switzerland and d) German models (Table 2). In these models

(except for the German model) the state is the leader and takes the initiative of the organization, the organization and the guarantee of these relations $^*$ .

Table 2 Public-Private Partnerships in Agricultural Risk Insurance (PPP) models

		1 40110 11114	te Partnerships in Agricultural Risk Insura	liee (111) models
№	pou	The content of the models	The benefits of the model	The disadvantages of the model
	USA		<ul> <li>Active participation of the state in insurance of agricultural producers;</li> <li>reducing the cost of insurance by providing government subsidies to pay insurance premiums;</li> <li>active participation of private insurance companies in the provision of insurance services in the agricultural sector;</li> <li>High level of protection of agricultural producers from various risks;</li> <li>Establishing transparent relationships between agricultural producers and insurance companies;</li> <li>uninterrupted development of agricultural insurance through the improvement of insurance products.</li> </ul>	<ul> <li>high costs of public administration;</li> <li>limited income of insurance companies.</li> </ul>
2	Canada, Israel	high state interference	<ul> <li>reducing the cost of insurance by providing government subsidies to pay insurance premiums, increasing the insurance coverage in the country;</li> <li>protection of agricultural producers from catastrophic risks;</li> <li>Uninterrupted and planned development of agricultural insurance in the country.</li> </ul>	<ul> <li>high costs of public administration;</li> <li>limited income of insurance companies.</li> </ul>
3	Spain, Turkey	Carrying out of insurance through insurance associations	<ul> <li>establishment of effective relations</li> <li>between the insurer, the insurer and the state;</li> <li>protection of agricultural producers from catastrophic risks;</li> <li>Active participation of agricultural producers in decisions related to insurance of agricultural risks through the merger.</li> </ul>	sector due to the management and implementation of agro-insurance processes by associations.
4	Austria, Switzerland	The only insurance company operating in the country	<ul> <li>Introduction of quality agro-insurance through the establishment of the only specialized insurance company in the country, centralization of the agricultural insurance market;</li> <li>reducing the cost of insurance by providing subsidies by the state (local government) to pay the insurance premium;</li> <li>Discounts on obtaining insurance policies to farmers when providing statistics on productivity (Austria).</li> </ul>	<ul> <li>High level of protection of agricultural producers from natural disasters;</li> <li>Compliance with agricultural insurance policies (Austria);</li> <li>Lack of competition in the agricultural producers' market.</li> </ul>

 $<sup>\</sup>underline{*}$  International experience in public-private partnerships and state support in agricultural insurance.  $\underline{\text{http://agroinsurance.com/ru/29980/}}$ 

5		Minimal state	• low public administration costs;	• inadequate protection of agricultural	
		participation in	• Development of private insurance.	producers from natural disasters;	
	ıny	insurance		<ul> <li>Lack of state support for crop losses;</li> </ul>	
	Germany			<ul> <li>High cost of agro-insurance services</li> </ul>	
	Ge			due to the lack of a program for	
				subsidizing agricultural insurance.	
				• limited capacity of agro-insurance.	

In some countries (Kazakhstan, Ukraine) efforts to introduce a compulsory insurance system for agricultural producers have failed. Insurance should be voluntary. Now, in many countries, insurance against agricultural risks is voluntary. Agricultural producers should choose the most effective way to solve the problem of risk management.

Today, the sphere of agricultural insurance is developing and improving in the country. Currently, Uzagrosugurta state joint-stock insurance company provides services on crop insurance. The company, operating in accordance with the Law "On insurance activity", provides about 40 types of insurance services in the field of agricultural insurance.

JSC "Uzagrosugurta" concluded more than 3337.5 thousand insurance contracts in 2017. Of these, 53.7 thousand, or 1.61%, are contracts for agricultural insurance. The company paid 37.3 billion soums for agricultural insurance. The volume of insurance premiums amounted to 1.9 trillion soums. soums. As part of the commitments, the clients of agricultural insurance received 73.8 billion soums. The amount of insurance compensations in the amount of 1 million soums. Insurance risks in the portfolio of insurance premiums amounted to 27.8% (Table 3).

Table 3 Indicators of JSC "Uzagrosugurta" on agricultural insurance for 2015-2017  $^{\dagger}$ 

Indicators	Unit of	Total in 2017	Agricultural insurance		
	measurement	101411112017	2015	2016	2017
Insurance premiums	million soum	134081,5	18862,7	45609	37314,0
Insurance indemnities	million soum	93337,3	7777,0	15441	73864,4
Insurance liability	billion soum	44458,8	1350,4	1917390	1932,3
Number of contracts	thousand units	3337,5	33,96	58	53,7

Risk management is a key issue for the sustainable development of the agricultural sector. Foreign practice demonstrates that each country has its own agricultural risk management mechanism, with its development and development in line with the culture of agriculture. Experience in agriculture insurance has been accumulated in developed countries for many years. Effective mechanisms of financial support of agricultural producers and their insurance against various risks have been introduced. The most common types of insurance are crop insurance, income insurance and income stabilization.

Experience of developed countries in the field of agricultural insurance in our country, taking into account local conditions will be very effective.

Based on international experience, the following recommendations for risk management in Uzbekistan's farms can be made:

Expanding and improving the types of insurance services that cover various risks in farm activities;

Involvement of insurance companies of different types of property in the agricultural insurance market in agricultural insurance, creating a healthy competitive environment among them;

State stimulation of insurance companies in the form of private property insurance services for insurance of agricultural production risks;

Development of new mechanisms of insurance of risks in production activities of multi-sector farms;

Improvement of risk management mechanisms at all levels of sector management, not just agroinsurance in agricultural risk management;

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<sup>†</sup> The table is based on the data of JSC "Uzagrosugurta".

ensuring participation of the Plant Protection Center in the examination of agricultural insurance events and damage assessment, improvement of the system of indicators allowing for an objective assessment of agricultural risks, and their use in the development of basic agricultural sectors;

Further expansion of public-private partnerships in the field of agricultural insurance, development of effective models of agricultural insurance based on public-private partnerships;

simplifying and ensuring transparency of insurance claim handling in the event of an accident;

Introduction of the practice of reimbursement of part of insurance premiums to insured in case of insured event.

To summarize, effective risk management in enterprises at any stage of the economic cycle is important.

It is natural that there are risks in the activities of any type of property in market relations. Because entrepreneurial activity is based on certain risks. In these circumstances, businesses may have the potential to fail to achieve the expected profit, profit and other economic consequences.

An important prerequisite for the creation of diversified production is that any farm can, at its own discretion, become a diversified farm, voluntarily setting up additional sub-sectors to maximize its profits.

In the activities of farms, along with the production of agricultural products, the organization of diversified activities such as processing, manufacturing, storage, sales, and various services are essential to ensure their financial and economic stability.

Agribusiness is based on risk, of course, at its core contains many risks. Under these conditions, farms are more likely to fail to achieve the expected income, profit and other economic outcomes.

Risks are considered as a set of factors that cause deviations in farms, planned productivity, loss of income (profit) or loss. Therefore, in developing a strategic policy of farm activities, special attention should be paid to risk management. Risk management on the farm requires farmers to have high skills, theoretical knowledge and profound practical skills.

#### 3. CONCLUSION/RECOMMENDATIONS

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It is natural that there are risks in the activities of any type of property in market relations. Because entrepreneurial activity is based on certain risks. In these circumstances, businesses may have the potential to fail to achieve the expected profit, profit and other economic consequences.

Risk is a financial and economic category, which is a set of factors that cause enterprises to deviate from their stated goals, profit or loss in the planned amounts, loss of profit or loss.

Therefore, the strategic policy of the enterprise should focus on risk management. Risk managers at the enterprise must have excellent skills, excellence in theoretical knowledge, and profound practical skills. The fact that the enterprises operating in our country, based on the best practices of foreign countries in this field, can be put into practice will have positive results in the future.

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